

Chapter 15
Single Audit Act

In November 1995, Congress passed the National Highway System Designation Act (NHS). Section 307 of the Act, “Quality Through Competition,” revised Section 112(b)(2) of Title 23, United States Code, which deals with contracting for engineering and design services.

This new section requires that agreements or subagreements for engineering and design services funded in whole or in part with federal aid highway funds be audited in accordance with the Federal Acquisition Regulations (Code of Federal Regulations, Title 48, Part 31). It also established the requirement that, instead of doing its own audits, a recipient of funds by an agreement or subagreement awarded in accordance with Section 112.A would accept indirect cost rates established by a cognizant federal or state government agency.

The new section states that “once a firm’s indirect cost rates are accepted . . . , the recipient of the funds shall apply such rates for the purposes of contract estimation, negotiation, administration, reporting, and contract payment and shall not be limited by administrative or de facto ceilings of any kind.”

The major impact on WSDOT was that the agency eliminated the 165 percent cap on overhead rates that had been used for years. In cooperation with AASHTO and its member state departments of transportation, WSDOT had already been accepting and using indirect cost rate audits done by other federal and state agencies for several years. We continue to accept audited rates by federal and state agencies and by CPA firms when their workpapers have been reviewed by and their work accepted by a federal or state agency. We also provide indirect cost rate data on firms that we have audited to other federal and state agencies when asked to do so.

Washington State

The Washington State Auditor’s Office (SAO) is responsible for auditing state agencies, counties, cities, towns, school districts, ports, and other government agencies within the state. Under the Single Audit Act, they have to audit major federal programs directly. Therefore, virtually all expenditures of federal funds by government agencies in Washington are audited by SAO in their normal course of work. However, they do not specifically test a federal aid program unless it comes up in their sampling. It is assumed that if the agency’s accounting systems and internal control structure are adequate, then control over expenditures of federal funds is also adequate and in compliance with the agreement or grant.

Actual Implication

What this actually means is that Federal Highway Administration and Federal Transit Authority agreements and grants with government agencies in Washington State are not directly audited. For this reason, it is WSDOT policy to audit agreements and grants with private businesses with minimum expenditures of \$100,000 or more. Upon request by the contracting officer or other authority, we will also audit work conducted for local agencies by consultants when costs are less than \$100,000.

We audit these agreements with government agencies even though they are included in the single audit conducted by SAO. In this way, we are able to satisfy ourselves that the problems cited by the Health and Human Services Inspector General in his report on the Single Audit Act do not mask problems with transportation agreements and grants. These problems include (1) sample sizes that are too small to be representative of the population tested, (2) lack of testing to specific agreement and grant requirements, and (3) lack of auditing and monitoring of subrecipients.

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